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TOLL BROTHERS INC
Form 10-K/A
September 06, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
Amendment No. 1

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2001

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-9186

TOLL BROTHERS, INC.

(Exact name of registrant as specified in its charter)

Delaware

23-2416878

(State of Incorporation)

(IRS Employer Identification No.)

3103 Philmont Avenue, Huntingdon Valley, Pennsylvania 19006-4298

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code (215) 938-8000

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------------------|--|
| Common Stock (par value \$.01)* | New York Stock Exchange and Pacific Exchange |

* Includes associated Right to Purchase Series A Junior Participating Preferred Stock.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

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Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of December 31, 2001, the aggregate market value of the Common Stock held by non-affiliates (all persons other than executive officers and directors of Registrant) of the Registrant was approximately \$1,080,240,000.

As of December 31, 2001, there were 34,918,349 shares of Common Stock outstanding.

Documents Incorporated by Reference: Portions of the proxy statement of Toll Brothers, Inc. with respect to the 2002 Annual Meeting of Shareholders, scheduled to be held on March 21, 2002, are incorporated by reference into Items 10, 12 and 13 hereof.

TOLL BROTHERS 10-K AMENDMENTS

EXPLANATION: Toll Brothers, Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended October 31, 2001 (the "Report") solely for the limited purposes of:

- (a) Correcting typographical errors that appeared in Item 8 of the Report as originally filed. These corrections have been made under the caption "Description" in Schedule II -- Valuation and Qualifying Accounts. The last two references to the year 1999 have been changed to refer to the year 2000 and 2001, respectively.
- (b) Adding disclosure of the value of perquisites received by Robert I. Toll, which were inadvertently omitted from the original filing (\$87,400 for fiscal 2001; \$73,400 for fiscal 2000 and \$69,400 for fiscal 1999). This amendment to Item 11 of the original Report has been made by adding a column, "Other Annual Compensation," in the Summary Compensation Table of the Company's proxy statement dated February 11, 2002, which was incorporated by reference into Item 11 of the original Report.
- (c) Adding disclosure of the value of compensation received by Bruce E. Toll in fiscal 2001, which was inadvertently omitted from the original filing. This amendment to Item 11 of the original Report has been made by disclosing the specific amount (\$7,078) paid in fiscal 2001 for Bruce E. Toll's health insurance under the agreement described in Item 11, and to include the value (\$63,800) of additional compensation received by him, under the heading "Compensation of Directors" in the Company's proxy statement referenced above.

Applicable rules require the restatement of the entire Items 8 and 11 upon amendment.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT AUDITORS
The Board of Directors and Shareholders
Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2001 and 2000, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2001. Our audits also included the financial statement schedule listed in the Index at item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. and subsidiaries at October 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
December 11, 2001

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CONSOLIDATED STATEMENT OF INCOME (Amounts in thousands, except per share data)

| | Year ended October 31, | | |
|---|------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Revenues | | | |
| Home sales | \$2,180,469 | \$1,762,930 | \$1,438,171 |
| Land sales | 27,530 | 38,730 | 17,345 |
| Equity earnings in unconsolidated joint ventures | 6,756 | 3,250 | |
| Interest and other | 14,850 | 9,452 | 8,599 |
| | ----- | ----- | ----- |
| | 2,229,605 | 1,814,362 | 1,464,115 |
| | ----- | ----- | ----- |

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| | | | |
|---|------------|------------|------------|
| Costs and expenses | | | |
| Home sales | 1,602,276 | 1,337,060 | 1,117,872 |
| Land sales | 21,464 | 29,809 | 13,375 |
| Selling, general and administrative | 209,729 | 170,358 | 130,213 |
| Interest | 58,247 | 46,169 | 39,905 |
| | ----- | ----- | ----- |
| | 1,891,716 | 1,583,396 | 1,301,365 |
| | ----- | ----- | ----- |
| Income before income taxes and extraordinary loss | 337,889 | 230,966 | 162,750 |
| Income taxes | 124,216 | 85,023 | 59,723 |
| | ----- | ----- | ----- |
| Income before extraordinary loss | 213,673 | 145,943 | 103,027 |
| Extraordinary loss | | | (1,461) |
| | ----- | ----- | ----- |
| Net income | \$ 213,673 | \$ 145,943 | \$ 101,566 |
| | ===== | ===== | ===== |
| Earnings per share | | | |
| Basic: | | | |
| Income before extraordinary loss | \$ 5.96 | \$ 4.02 | \$ 2.81 |
| Extraordinary loss | | | (0.04) |
| | ----- | ----- | ----- |
| Net income | \$ 5.96 | \$ 4.02 | \$ 2.77 |
| | ===== | ===== | ===== |
| Diluted: | | | |
| Income before extraordinary loss | \$ 5.52 | \$ 3.90 | \$ 2.75 |
| Extraordinary loss | | | (0.04) |
| | ----- | ----- | ----- |
| Net income | \$ 5.52 | \$ 3.90 | \$ 2.71 |
| | ===== | ===== | ===== |
| Weighted average number of shares: | | | |
| Basic | 35,835 | 36,269 | 36,689 |
| Diluted | 38,683 | 37,413 | 37,436 |

See accompanying notes.

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CONSOLIDATED BALANCE SHEET
(Amounts in thousands)

| | October 31 | |
|--|-------------|-------------|
| | 2001 | 2000 |
| | ----- | ----- |
| ASSETS | | |
| Cash and cash equivalents | \$ 182,840 | \$ 161,860 |
| Inventory | 2,183,541 | 1,712,383 |
| Property, construction and office equipment, net | 33,095 | 24,075 |
| Receivables, prepaid expenses and other assets | 118,542 | 113,025 |
| Investments in unconsolidated entities | 14,182 | 18,911 |
| | ----- | ----- |
| | \$2,532,200 | \$2,030,254 |
| | ===== | ===== |

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LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

| | | |
|----------------------|------------|------------|
| Loans payable | \$ 387,466 | \$ 326,537 |
| Subordinated notes | 669,581 | 469,499 |
| Customer deposits | 101,778 | 104,924 |
| Accounts payable | 132,970 | 110,927 |
| Accrued expenses | 229,671 | 185,141 |
| Income taxes payable | 98,151 | 88,081 |
| | ----- | ----- |
| Total liabilities | 1,619,617 | 1,285,109 |
| | ----- | ----- |

Stockholders' equity

| | | |
|--|-------------|-------------|
| Preferred stock, none issued | | |
| Common stock, 37,014 and 37,028 shares issued at October 31, 2001 and 2000, respectively | 369 | 369 |
| Additional paid-in capital | 107,014 | 105,454 |
| Retained earnings | 882,281 | 668,608 |
| Treasury stock, at cost - 2,237 shares and 1,133 shares at October 31, 2001 and 2000, respectively | (77,081) | (29,286) |
| | ----- | ----- |
| Total stockholders' equity | 912,583 | 745,145 |
| | ----- | ----- |
| | \$2,532,200 | \$2,030,254 |
| | ===== | ===== |

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

| | Year ended October 31 | | |
|---|-----------------------|-----------|-----------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Cash flow from operating activities: | | | |
| Net income | \$213,673 | \$145,943 | \$101,566 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 9,356 | 8,528 | 6,594 |
| Equity earnings in unconsolidated joint ventures | (6,756) | (3,250) | |
| Extraordinary loss from extinguishment of debt | | | 2,318 |
| Deferred tax provision | 7,323 | 5,191 | 1,569 |
| Changes in operating assets and liabilities, net of assets and liabilities acquired: | | | |
| Increase in inventory | (443,887) | (264,303) | (282,764) |
| Origination of mortgage loans | (199,102) | | |
| Sale of mortgage loans | 183,449 | | |
| Decrease (increase) in receivables, prepaid expenses and other assets | 10,793 | (28,025) | (32,524) |
| (Decrease) increase in customer deposits | | | |

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| | | | |
|--|------------|------------|------------|
| on sales contracts | (3,146) | 22,429 | 11,557 |
| Increase in accounts payable and accrued expenses | 71,776 | 71,492 | 62,769 |
| Increase in current income taxes payable | 8,142 | 25,132 | 8,045 |
| | ----- | ----- | ----- |
| Net cash used in operating activities | (148,379) | (16,863) | (120,870) |
| | ----- | ----- | ----- |
| Cash flow from investing activities: | | | |
| Purchase of property and equipment, net | (15,020) | (9,415) | (8,331) |
| Acquisition of company, net of cash acquired | | | (11,090) |
| Investment in unconsolidated entities | | | (15,193) |
| Distribution from unconsolidated entities | 15,750 | 13,589 | |
| | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities | 730 | 4,174 | (34,614) |
| | ----- | ----- | ----- |
| Cash flow from financing activities: | | | |
| Proceeds from loans payable | 208,628 | 559,843 | 177,500 |
| Principal payments of loans payable | (180,094) | (460,482) | (187,551) |
| Net proceeds from issuance senior subordinated notes | 196,930 | | 267,716 |
| Redemption of subordinated notes | | | (71,359) |
| Proceeds from stock based benefit plans | 14,932 | 11,936 | 2,223 |
| Purchase of treasury stock | (71,767) | (33,232) | (16,704) |
| | ----- | ----- | ----- |
| Net cash provided by financing activities | 168,629 | 78,065 | 171,825 |
| | ----- | ----- | ----- |
| Net increase in cash and cash equivalents | 20,980 | 65,376 | 16,341 |
| Cash and cash equivalents, beginning of year | 161,860 | 96,484 | 80,143 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of year | \$182,840 | \$161,860 | \$ 96,484 |
| | ===== | ===== | ===== |

See accompanying notes.

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Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Toll Brothers, Inc. (the "Company"), a Delaware corporation, and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 20% to 50% owned partnerships and affiliates are accounted for on the equity method. Investments in less than 20% owned affiliates are accounted for on the cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Income Recognition

The Company is primarily engaged in the development, construction and sale of residential homes. Revenue and cost of sales is recorded at the time each home sale is closed and title and possession has been transferred to the buyer. Closing normally occurs shortly after construction is substantially completed.

Land sales revenue and cost of sales is recorded at the time that title and possession of the property has been transferred to the buyer.

Cash and Cash Equivalents

Liquid investments or investments with original maturities of three months or less are classified as cash equivalents. The carrying value of these investments approximates their fair value.

Property, Construction and Office Equipment

Property, construction and office equipment is recorded at cost and is stated net of accumulated depreciation of \$35,792,000 and \$30,288,000 at October 31, 2001 and 2000, respectively. Depreciation is recorded by using the straight-line method over the estimated useful lives of the assets.

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Inventory

Inventory is stated at the lower of cost or fair value. In addition to direct land acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead costs related to development and construction, which are capitalized to inventories during the period beginning with the commencement of development and ending with the completion of construction.

Land, land development and related costs are amortized to the cost of homes closed based upon the total number of homes to be constructed in each community. Home construction and related costs are charged to the cost of homes closed under the specific identification method.

The Company capitalizes certain project marketing costs and charges them against income as homes are closed.

Treasury Stock

Treasury stock is recorded at cost. Issuance of treasury shares is accounted for on a first-in, first-out basis. Differences between the cost of treasury shares and the re-issuance proceeds are charged to additional paid-in capital.

Segment Reporting

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the manner in which public enterprises report information about operating segments. The Company has determined that its operations primarily involve one reportable segment, home building.

New Accounting Pronouncement

SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," establishes accounting and reporting standards of derivative

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instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133, as amended, in the first quarter of 2001. Such adoption did not have a material impact on the Company's reported results of operations, financial position or cash flows.

SFAS No. 142, "Goodwill and Other Intangible Assets," provides guidance on accounting for intangible assets and eliminates the amortization of goodwill and certain other intangible assets. Intangible assets, including goodwill, that are not subject to amortization are required to be tested for impairment and possible write-down on an annual basis. The Company is required to adopt SFAS No. 142 for its fiscal year 2003. The Company is currently reviewing the effect of this statement on the Company's financial statements.

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2. Inventory

Inventory consisted of the following (amounts in thousands):

| | October 31, | |
|--|-------------|-------------|
| | 2001 | 2000 |
| Land and land development costs | \$ 833,386 | \$ 558,503 |
| Construction in progress | 1,145,046 | 992,098 |
| Sample homes | 75,723 | 60,511 |
| Land deposits and costs of future development | 89,360 | 68,560 |
| Deferred marketing costs | 40,026 | 32,711 |
| | \$2,183,541 | \$1,712,383 |
| | ===== | ===== |

Construction in progress includes the cost of homes under construction, land and land development costs and the carrying cost of home sites that have been substantially improved.

For the years ended October 31, 2001, 2000 and 1999, the Company provided for inventory write-downs and the expensing of costs which it believed not to be recoverable of \$13,035,000, \$7,448,000 and \$5,092,000, respectively.

Interest capitalized in inventories is charged to interest expense when the related inventory is closed. Changes in capitalized interest for the three years ended October 31, 2001 were as follows (amounts in thousands):

| | 2001 | 2000 | 1999 |
|--|----------|----------|----------|
| Interest capitalized, beginning of year | \$78,443 | \$64,984 | \$53,966 |
| Interest incurred | 79,209 | 60,236 | 51,396 |
| Interest expensed | (58,247) | (46,169) | (39,905) |
| Write-off to cost and expenses | (755) | (608) | (473) |
| | \$98,650 | \$78,443 | \$64,984 |
| | ===== | ===== | ===== |

3. Loans Payable and Subordinated Notes

Loans payable consisted of the following (amounts in thousands):

October 31

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| | ----- 2001 ----- | 2000 ----- |
|---------------------------|-----------------------------|-----------------------------|
| Revolving credit facility | \$ 80,000 | \$ 80,000 |
| Term loan due March 2002 | 50,000 | 50,000 |
| Term loan due July 2005 | 192,500 | 170,000 |
| Other | 64,966 | 26,537 |
| | ----- \$387,466 ===== | ----- \$326,537 ===== |

The Company has a \$535,000,000 unsecured revolving credit facility with 16 banks of which \$445,000,000 extends through March 2006 and \$90,000,000 extends through February 2003. Interest is payable on borrowings at 0.90% above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. The Company fixed the interest rate on \$20,000,000 of borrowing at 6.39% until March 2002 through an interest rate swap with a bank. Had the Company not entered into the interest rate swap, the interest

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rate on this borrowing would have been 3.32% at October 31, 2001. At October 31, 2001, letters of credit and obligations under escrow agreements of approximately \$43,862,000 were outstanding. The agreement contains various covenants, including financial covenants related to consolidated stockholders' equity, indebtedness and inventory. The agreement requires the Company to maintain a minimum consolidated stockholders' equity which restricts the payment of cash dividends and the repurchase of Company stock to approximately \$230,000,000 at October 31, 2001.

The Company borrowed \$50,000,000 from three banks at a fixed rate of 7.72% repayable in March 2002. The Company has borrowed \$192,500,000 from eight banks at a weighted-average interest rate of 8.04% repayable in July 2005. Both loans are unsecured and the agreements contain financial covenants that are less restrictive than the covenants contained in the Company's revolving credit agreement.

A subsidiary of the Company has a \$35,000,000 line of credit with a bank to fund mortgage originations. The line of credit is collateralized by all the assets of the subsidiary. At October 31, 2001, the subsidiary had borrowed \$24,754,000 under the line of credit and had assets of approximately \$28,364,000.

At October 31, 2001, the aggregate estimated fair value of the Company's loans payable was approximately \$405,500,000. The fair value of loans was estimated based upon the interest rates at October 31, 2001 that the Company believed were available to it for loans with similar terms and remaining maturities.

Subordinated notes consisted of the following (amounts in thousands):

| | October 31 | |
|---|------------------------|---------------|
| | ----- 2001 ----- | 2000 ----- |
| 8 3/4% Senior Subordinated Notes due November 15, 2006 | \$100,000 | \$100,000 |
| 7 3/4% Senior Subordinated Notes due September 15, 2007 | 100,000 | 100,000 |
| 8 1/8% Senior Subordinated Notes due February 1, 2009 | 170,000 | 170,000 |
| 8% Senior Subordinated Notes due May 1, 2009 | 100,000 | 100,000 |

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| | | |
|----------------------------------|-----------|-----------|
| 8 1/4% Senior Subordinated Notes | 200,000 | |
| due February 1, 2011 | | |
| Bond discount | (419) | (501) |
| | ----- | ----- |
| | \$669,581 | \$469,499 |
| | ===== | ===== |

All issues of senior subordinated notes are subordinated to all senior indebtedness of the Company. The indentures restrict certain payments by the Company including cash dividends and the repurchase of Company stock. The notes are redeemable in whole or in part at the option of the Company at various prices on or after the fifth anniversary of each issue's date of issuance.

At October 31, 2001, the aggregate fair value of all the outstanding subordinated notes, based upon their indicated market prices, was approximately \$661,600,000.

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In November 2001, the Company issued \$150,000,000 of 8.25% Senior Subordinated Notes due December 2011. The notes are subordinated to all senior indebtedness of the Company and have the same restrictions as to the payment of dividends and the repurchase of Company stock as the other issues of the Company's subordinated notes. The notes are redeemable in part, at the Company's option, from the proceeds of one or more public equity offerings prior to December 1, 2004 and redeemable in whole or in part on or after December 1, 2006.

The annual aggregate maturity of the Company's loans and notes during each of the next five fiscal years is: 2002 - \$93,573,000; 2003 - \$6,107,000; 2004 - \$5,671,000; 2005 - \$195,811,000; and 2006 - \$181,394,000.

4. Income taxes

The Company's estimated combined federal and state tax rate before providing for the effect of permanent book-tax differences ("Base Rate") was 37% in 2001, 2000 and 1999. The effective tax rates in 2001, 2000, and 1999 were 36.8%, 36.8% and 36.7%, respectively. The primary difference between the Company's Base Rate and effective tax rate was tax-free income.

The provision for income taxes for each of the three years ended October 31, 2001 was as follows (amounts in thousands):

| | 2001 | 2000 | 1999 |
|----------|-----------|----------|----------|
| | ----- | ----- | ----- |
| Federal | \$114,131 | \$78,105 | \$54,874 |
| State | 10,085 | 6,918 | 4,849 |
| | ----- | ----- | ----- |
| | \$124,216 | \$85,023 | \$59,723 |
| | ===== | ===== | ===== |
| | | | |
| Current | \$116,893 | \$79,832 | \$58,154 |
| Deferred | 7,323 | 5,191 | 1,569 |
| | ----- | ----- | ----- |
| | \$124,216 | \$85,023 | \$59,723 |
| | ===== | ===== | ===== |

The components of income taxes payable consisted of the following (amounts in thousands):

October 31,

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| | ----- 2001 ----- | ----- 2000 ----- |
|----------|----------------------------|----------------------------|
| Current | \$66,522 | \$63,775 |
| Deferred | 31,629 | 24,306 |
| | ----- \$98,151 ===== | ----- \$88,081 ===== |

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The components of net deferred taxes payable consisted of the following (amounts in thousands):

| | October 31 | |
|---------------------------------|------------------------|------------------------|
| | ----- 2001 ----- | ----- 2000 ----- |
| Deferred tax liabilities: | | |
| Capitalized interest | \$32,789 | \$26,287 |
| Deferred expense | 17,755 | 13,743 |
| | ----- | ----- |
| Total | 50,544 | 40,030 |
| | ----- | ----- |
| Deferred tax assets: | | |
| Inventory valuation reserves | 5,716 | 4,555 |
| Inventory valuation differences | 2,581 | 2,184 |
| Deferred income | 2,329 | 2,170 |
| Accrued expenses | | |
| deductible when paid | 1,324 | 178 |
| Other | 6,965 | 6,637 |
| | ----- | ----- |
| Total | 18,915 | 15,724 |
| | ----- | ----- |
| Net deferred tax liability | \$31,629 | \$24,306 |
| | ===== | ===== |

5. Stockholders' Equity

The Company's authorized capital stock consists of 45,000,000 shares of Common Stock, \$.01 par value per share, and 1,000,000 shares of Preferred Stock, \$.01 par value per share. The Board of Directors is authorized to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock to 200,000,000 shares and the number of shares of authorized Preferred Stock to 15,000,000 shares.

Changes in stockholders' equity for the three years ended October 31, 2001 were as follows (amounts in thousands):

| | Common Shares | Stock Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total |
|-------------------------------|------------------|-----------------|----------------------------------|----------------------|-------------------|-----------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, | | | | | | |
| November 1, 1998 | 36,935 | \$ 369 | \$ 106,099 | \$421,099 | \$ (1,811) | \$525,756 |
| Net income | | | | 101,566 | | 101,566 |
| Purchase of treasury stock | (801) | | | | (16,704) | (16,704) |
| Exercise of stock options | 177 | | (1,143) | | 3,701 | 2,558 |
| Executive bonus award | 106 | | 342 | | 2,120 | 2,462 |

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| | | | | | | |
|---------------------------------|---------|--------|-----------|-----------|------------|-----------|
| Employee benefit plan issuances | 37 | | (59) | | 755 | 696 |
| Balance, | | | | | | |
| October 31, 1999 | 36,454 | 369 | 105,239 | 522,665 | (11,939) | 616,334 |
| Net income | | | | 145,943 | | 145,943 |
| Purchase of treasury stock | (1,355) | | | | (33,232) | (33,232) |
| Exercise of stock options | 672 | | 588 | | 13,352 | 13,940 |
| Executive bonus award | 80 | | (225) | | 1,621 | 1,396 |
| Employee benefit plan issuances | 44 | | (148) | | 912 | 764 |
| Balance, | | | | | | |
| October 31, 2000 | 35,895 | 369 | 105,454 | 668,608 | (29,286) | 745,145 |
| Net income | | | | 213,673 | | 213,673 |
| Purchase of treasury stock | (2,061) | | | | (71,767) | (71,767) |
| Exercise of stock options | 781 | | (336) | | 20,452 | 20,116 |
| Executive bonus award | 136 | | 1,678 | | 2,735 | 4,413 |
| Employee benefit plan issuances | 26 | | 218 | | 785 | 1,003 |
| Balance, | | | | | | |
| October 31, 2001 | 34,777 | \$ 369 | \$107,014 | \$882,281 | \$(77,081) | \$912,583 |

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Stockholder Rights Plan

Shares of the Company's Common Stock outstanding are subject to stock purchase rights. The rights, which are exercisable only under certain conditions, entitle the holder, other than an acquiring person (and certain related parties of an acquiring person), as defined in the plan, to purchase common shares at prices specified in the rights agreement. Unless earlier redeemed, the rights will expire on July 11, 2007. The rights were not exercisable at October 31, 2001.

Redemption of Common Stock

To help provide for an orderly market in the Company's Common Stock in the event of the death of either Robert I. Toll or Bruce E. Toll (the "Tolls"), or both of them, the Company and the Tolls have entered into agreements in which the Company has agreed to purchase from the estate of each of the Tolls \$10,000,000 of the Company's Common Stock (or a lesser amount under certain circumstances) at a price equal to the greater of fair market value (as defined) or book value (as defined). Further, the Tolls have agreed to allow the Company to purchase \$10,000,000 of life insurance on each of their lives. In addition, the Tolls granted the Company an option to purchase up to an additional \$30,000,000 (or a lesser amount under certain circumstances) of the Company's Common Stock from each of their estates. The agreements expire in October 2005.

In December 2000, the Company's Board of Directors authorized the repurchase of up to 5,000,000 shares of its Common Stock, par value \$.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. At October 31, 2001, the Company had repurchased approximately 2,061,000 shares under the authorization.

6. Stock-Based Benefit Plans

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Stock-Based Compensation Plans

The Company accounts for its stock option plans according to Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, no compensation costs are recognized upon issuance or exercise of stock options.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of the estimated value of employee option grants and their impact on net income using option pricing models that are designed to estimate the value of options that, unlike employee stock options, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options.

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At October 31, 2001, the Company's stock-based compensation plans consisted of its four stock option plans. Net income and net income per share as reported in these consolidated financial statements and on a pro forma basis, as if the fair value-based method described in SFAS No. 123 had been adopted, were as follows (in thousands, except per share amounts):

| | | Year ended October 31, | | |
|---|-------------|------------------------|-----------|-----------|
| | | 2001 | 2000 | 1999 |
| | | ----- | ----- | ----- |
| Net income | As reported | \$213,673 | \$145,943 | \$101,566 |
| | Pro forma | \$202,597 | \$136,622 | \$ 93,402 |
| Basic net income per share | As reported | \$ 5.96 | \$ 4.02 | \$ 2.77 |
| | Pro forma | \$ 5.65 | \$ 3.77 | \$ 2.55 |
| Diluted net income per share | As reported | \$ 5.52 | \$ 3.90 | \$ 2.71 |
| | Pro forma | \$ 5.24 | \$ 3.65 | \$ 2.50 |
| Weighted-average grant date fair value per share of options granted | | \$ 17.87 | \$ 9.03 | \$ 10.98 |

For the purposes of providing the pro forma disclosures, the fair value of options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in each of the three fiscal years ended October 31, 2001.

| | 2001 | 2000 | 1999 |
|-------------------------|--------|--------|--------|
| | ----- | ----- | ----- |
| Risk-free interest rate | 4.01% | 5.80% | 6.14% |
| Expected life (years) | 7.31 | 7.70 | 7.10 |
| Volatility | 37.40% | 35.70% | 34.90% |
| Dividends | none | none | none |

Stock Option Plans

The Company's four stock option plans for employees, officers and directors provide for the granting of incentive stock options and non-statutory options with a term of up to ten years at a price not less than the market price of the stock at the date of grant. The Company's Stock Option and Incentive Stock Plan (1995) provides for automatic increases each January 1 in the number of shares

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available for grant by 2% of the number of shares issued (including treasury shares). The Company's Stock Incentive Plan (1998) provides for automatic increases each November 1 in the number of shares available for grant by 2.5% of the number of shares issued (including treasury shares). The 1995 Plan and the 1998 Plan each restricts the number of shares available for grant in a year to a maximum of 2,500,000 shares. No additional options may be granted under the Company's Stock Option Plan (1986).

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The following table summarizes stock option activity for the four plans during the three years ended October 31, 2001:

| | Number of Options | Weighted Average Exercise Price |
|-------------------------------|----------------------|------------------------------------|
| | ----- | ----- |
| Outstanding, November 1, 1998 | 4,942,518 | \$19.53 |
| Granted | 1,252,800 | 22.81 |
| Exercised | (176,470) | 11.39 |
| Cancelled | (127,255) | 22.97 |
| | ----- | |
| Outstanding, October 31, 1999 | 5,891,593 | \$20.40 |
| Granted | 1,879,750 | 17.53 |
| Exercised | (678,288) | 17.69 |
| Cancelled | (89,299) | 20.95 |
| | ----- | |
| Outstanding, October 31, 2000 | 7,003,756 | \$19.88 |
| Granted | 1,149,400 | 38.63 |
| Exercised | (794,903) | 19.18 |
| Cancelled | (115,314) | 23.02 |
| | ----- | |
| Outstanding, October 31, 2001 | 7,242,939 | \$22.88 |
| | ===== | |

Options exercisable and their weighted average exercise price as of October 31, 2001, 2000 and 1999 were 4,637,878 shares and \$19.92; 3,874,223 shares and \$19.92; and 3,736,905 shares and \$18.93, respectively.

Options available for grant at October 31, 2001, 2000 and 1999 under all the plans were 2,809,364; 2,313,251 and 3,188,657, respectively.

The following table summarizes information about stock options outstanding at October 31, 2001:

| | Options Outstanding | | Options Exercisable | | |
|--------------------------------|-----------------------|--|---|-----------------------|---|
| | Number Outstanding | Weighted- Average Remaining Contractual Life (in years) | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
| Range of Exercise Prices | ----- | ----- | ----- | ----- | ----- |
| \$ 9.94-\$15.88 | 714,300 | 2.8 | \$10.82 | 714,300 | \$10.82 |
| 17.38- 20.25 | 3,062,453 | 6.5 | 18.25 | 2,236,348 | 18.53 |
| 22.31- 25.56 | 1,644,086 | 6.7 | 23.78 | 989,730 | 23.93 |
| 27.44- 29.50 | 697,500 | 6.2 | 28.01 | 697,500 | 28.01 |
| 38.63 | 1,124,600 | 9.1 | 38.63 | -- | -- |
| | ----- | | | ----- | |
| \$ 9.94-\$38.63 | 7,242,939 | 6.6 | \$22.88 | 4,637,878 | \$19.92 |
| | ===== | | | ===== | |

Bonus Award Shares

Under the terms of the Company's Cash Bonus Plan covering Robert I. Toll, Mr. Toll is entitled to receive cash bonus awards based upon the pre-tax earnings and stockholders' equity of the Company. In December 1998, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ended October 31, 2001 will be made (except for specific conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement (\$24.25 per share). The stockholders approved the plan at the Company's 1999 Annual Meeting. The Company recognized compensation expense in 2001 of \$6,855,000, in 2000 of \$4,413,000 and in 1999 of \$1,395,000, which represented the fair market value of the shares issued to Mr. Toll (220,001 shares in 2001, 135,792 shares in 2000 and 79,686 shares in 1999). On October 31, 2001, 2000 and 1999, the closing price of the Company's Common Stock on the New York Stock Exchange was \$31.16, \$32.50 and \$17.50, respectively. Under the Company's deferred compensation plan Mr. Toll can elect to defer receipt of his bonus until a future date. Mr. Toll elected to defer receipt of his bonus for fiscal 2001.

In December 2000, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ended October 31, 2004 will be made (except for specific conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement (\$38.625 per share). The stockholders approved the plan at the Company's 2001 Annual Meeting.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan enables substantially all employees to purchase the Company's Common Stock for 95% of the market price of the stock on specified offering dates or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2007, provides that 300,000 shares be reserved for purchase. As of October 31, 2001, a total of 226,974 shares were available for issuance.

The number of shares and the average prices per share issued under this plan during each of the three fiscal years ended October 31, 2001, 2000 and 1999 were 6,268 shares and \$30.48; 6,309 shares and \$19.41; and 12,182 shares and \$16.97, respectively. No compensation expense was recognized by the Company under this plan.

7. Earnings Per Share Information

Information pertaining to the calculation of earnings per share for each of the three years ended October 31, 2001 is as follows (amounts in thousands):

| | 2001 ----- | 2000 ----- | 1999 ----- |
|---------------------------------|---------------|---------------|---------------|
| Basic weighted average shares | 35,835 | 36,269 | 36,689 |
| Common stock equivalents | 2,848 | 1,144 | 747 |
| | ----- | ----- | ----- |
| Diluted weighted average shares | 38,683 | 37,413 | 37,436 |
| | ===== | ===== | ===== |

8. Employee Retirement Plan

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The Company maintains a salary deferral savings plan covering substantially all employees. The plan provides for Company contributions totaling 2% of all eligible compensation, plus 2% of eligible compensation above the social security wage base, plus matching contributions of up to 2% of eligible compensation of employees electing to contribute via salary deferrals. Company contributions with respect to the plan totaled \$3,141,000, \$ 2,579,000, and \$1,876,000, for the years ended October 31, 2001, 2000 and 1999, respectively.

9. Extraordinary Loss from Extinguishment of Debt

In January 1999, the Company called for the redemption of all of its outstanding 9 1/2% Senior Subordinated Notes due 2003 at 102% of the principal amount plus accrued interest. The redemption resulted in an extraordinary loss in fiscal 1999 of \$1,461,000, net of \$857,000 of income tax benefit. The loss represented the redemption premium and a write-off of unamortized deferred issuance costs.

10. Commitments and Contingencies

At October 31, 2001, the Company had agreements to purchase land and improved home sites for future development with purchase prices aggregating approximately \$721,129,000, of which \$42,658,000 had been paid or deposited. Purchase of the properties is contingent upon satisfaction of certain requirements by the Company and the sellers.

At October 31, 2001, the Company had agreements of sale outstanding to deliver 2,727 homes with an aggregate sales value of approximately \$1,411,374,000.

At October 31, 2001, the Company was committed to make approximately \$290,000,000 of mortgage loans to its homebuyers and to others. All loans with committed interest rates are covered by take-out commitments from third-party lenders, resulting in no interest rate risk to the Company. The Company also arranges a variety of mortgage programs that are offered to its homebuyers through outside mortgage lenders.

The Company is involved in various claims and litigation arising in the ordinary course of business. The Company believes that the disposition of these matters will not have a material effect on the business or on the financial condition of the Company.

11. Related Party Transactions

To take advantage of commercial real estate opportunities that may present themselves from time to time, the Company formed Toll Brothers Realty Trust (the "Trust"), a venture that is effectively owned one-third by the Company; one-third by a number of senior executives and/or directors, including Robert I. Toll, Bruce E. Toll (and certain family members), Zvi Barzilay (and certain family members), and Joel H. Rassman; and one-third by the Pennsylvania State Employees Retirement System (collectively, the "Shareholders").

In June 2000, the Shareholders entered into a subscription agreement whereby each group agreed to invest additional capital in an amount not to exceed \$9,259,000 if required by the Trust. The commitment expires in June 2002.

At October 31, 2001, the Company had an investment of \$7,471,000 in the Trust. This investment is accounted for on the equity method.

The Company provides development, finance and management services to the Trust and received fees under the terms of various agreements in the amount of

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\$1,672,000, \$1,392,000 and \$2,524,000 in fiscal 2001, 2000 and 1999, respectively.

During fiscal 2000, the Company repurchased 250,000 shares of its Common Stock from Bruce E. Toll at \$30 per share, a price that was within the trading range of the Company's Common Stock on the dates of the transactions.

12. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for each of the three years ended October 31, 2001 (amounts in thousands):

| | 2001 | 2000 | 1999 |
|---|-----------|----------|----------|
| Cash flow information: | | | |
| Interest paid, net of amount capitalized | \$ 26,985 | \$21,548 | \$17,469 |
| Income taxes paid | \$108,750 | \$54,700 | \$49,250 |
| Non-cash activity: | | | |
| Cost of inventory acquired through seller financing | \$ 34,662 | \$ 8,321 | \$ 7,504 |
| Investment in unconsolidated subsidiary acquired through seller financing | | \$ 4,500 | |
| Income tax benefit related to exercise of employee stock options | \$ 5,396 | \$ 2,128 | \$ 541 |
| Stock bonus awards | \$ 4,413 | \$ 1,395 | \$ 2,462 |
| Contributions to employee retirement plan | \$ 791 | \$ 641 | \$ 490 |
| Acquisition of company: | | | |
| Fair value of assets acquired | | | \$56,026 |
| Liabilities assumed | | | \$44,934 |
| Cash paid | | | \$11,092 |

Summary Consolidated Quarterly Financial Data (Unaudited) (Amounts in thousands, except per share data)

| | Oct. 31 | Three months ended | | Jan. 31 |
|-----------------------------------|-----------|--------------------|-----------|-----------|
| | | July 31 | April 30 | |
| Fiscal 2001: | | | | |
| Revenue | \$655,752 | \$584,068 | \$514,524 | \$475,261 |
| Income before income taxes | \$108,183 | \$ 94,160 | \$ 72,351 | \$ 63,195 |
| Net Income | \$ 68,526 | \$ 59,444 | \$ 45,778 | \$ 39,925 |
| Earnings per share | | | | |
| Basic | \$ 1.96 | \$ 1.66 | \$ 1.26 | \$ 1.10 |
| Diluted | \$ 1.84 | \$ 1.54 | \$ 1.17 | \$ 1.01 |
| Weighted average number of shares | | | | |
| Basic | 34,910 | 35,838 | 36,428 | 36,163 |
| Diluted | 37,331 | 38,706 | 39,282 | 39,415 |
| Fiscal 2000: | | | | |
| Revenue | \$614,793 | \$464,532 | \$390,486 | \$344,551 |
| Income before income taxes | \$ 92,484 | \$ 58,791 | \$ 44,363 | \$ 35,328 |
| Net Income | \$ 58,366 | \$ 37,234 | \$ 27,950 | \$ 22,393 |
| Earnings per share* | | | | |
| Basic | \$ 1.62 | \$ 1.03 | \$ 0.77 | \$ 0.61 |
| Diluted | \$ 1.52 | \$ 1.00 | \$ 0.75 | \$ 0.61 |
| Weighted average number of shares | | | | |
| Basic | 36,061 | 36,146 | 36,396 | 36,471 |
| Diluted | 38,486 | 37,219 | 37,036 | 36,909 |

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* Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year.

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TOLL BROTHERS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Amounts in thousands)

| Description | Balance at Beginning of Period | Charged Costs to and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|--|------------------------------------|------------|-----------------------------------|
| Net realizable value reserves for inventory of land and land development costs: | | | | | |
| Year ended October 31, 1999: New Jersey | \$ 3,708 | | | | \$ 3,708 |
| Year ended October 31, 2000: New Jersey | \$ 3,708 | | | | \$ 3,708 |
| Year ended October 31, 2001: New Jersey | \$ 3,708 | | 3,708 | | -- |

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Item 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the cash and non-cash compensation for each of the last three fiscal years awarded to or earned by the Chief Executive Officer of the Company and the other executive officers of the Company.

| Name and Principal Position | Fiscal Year | Annual Compensation | | |
|--|----------------|---------------------|------------|--------------------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) |
| Robert I. Toll Chairman of the Board and Chief Executive | 2001 | 1,000,000 | 6,620,359 | 87,400 (8) |
| | 2000 | 1,000,000 | 4,413,228 | 73,400 (8) |
| | 1999 | 1,000,000 | 1,394,505 | 69,400 (8) |

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Officer(1)

| | | | |
|--------------------------|------|---------|---------|
| Zvi Barzilay | 2001 | 956,322 | 230,000 |
| Chief Operating | 2000 | 872,322 | 120,000 |
| Officer and President(2) | 1999 | 830,367 | 120,000 |
| | | | |
| Joel H. Rassman | 2001 | 748,848 | 150,000 |
| Senior Vice President, | 2000 | 637,969 | 140,000 |
| Chief Financial | 1999 | 604,216 | 120,000 |
| Officer and | | | |
| Treasurer(2)(3) | | | |

- (1) The bonuses listed for Robert I. Toll for fiscal 2001, 2000 and 1999 were paid in common stock of the Company pursuant to the terms of the Cash Bonus Plan, the 1998 Plan and the 1995 Plan. The amounts listed were: (a) the fair market value of the bonus award shares as of October 31, 2001 in the case of the fiscal 2001 bonus; (b) the fair market value of the bonus award shares as of October 31, 2000 in the case of the fiscal 2000 bonus; and (c) the fair market value of the bonus award shares as of October 31, 1999 in the case of the fiscal 1999 bonus. Had the bonuses been paid in cash, Robert I. Toll would have received \$5,152,237 for the 2001 cash bonus, \$3,292,947 for the 2000 cash bonus and \$1,932,402 for the 1999 cash bonus. Under the terms of the Stock Deferral Plan, Mr. Toll elected to defer receipt of his 2001 bonus award shares.
- (2) The bonuses listed for Mr. Barzilay and Mr. Rassman for fiscal 2001, 2000 and 1999 represent amounts earned in the fiscal year in which it is reported.
- (3) Under the terms of an agreement dated June 30, 1988 between the Company and Mr. Rassman, in the event of Mr. Rassman's termination by the Company without cause (as defined), any material reduction or material adverse change (as defined) in Mr. Rassman's duties, the removal of fringe benefits (as defined) or any failure by the Company to provide Mr. Rassman with compensation, including salary and bonus, in an amount not less than \$350,000 and the exercise of an election by Mr. Rassman to terminate his employment, Mr. Rassman will receive \$250,000, and, in certain instances, an additional amount equal to the difference between \$350,000 and his actual compensation during a specified period prior to his termination.

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- (4) The compensation reported represents (a) the Company's contribution and matching payments under its 401(k) salary deferred plan for each executive listed and (b) for Joel H. Rassman, directors fees paid to him by a subsidiary of the Company in the amount of \$1,250 per year.
- (5) Of this amount, \$9,702 represents the premium paid by the Company for the term life portion of a split-dollar life insurance policy for Mr. Toll, \$405,615 represents the premium paid by the Company for the non-term portion of the split-dollar life insurance policy and \$8,592 represents the Company's contribution and matching payment under its 401(k) salary deferred plan. The Company expects to receive a refund of the premium for the non-term portion of the split-dollar life insurance policy upon the first to occur of certain events described in the policy.
- (6) Of this amount, \$3,133 represents the premium paid by the Company for the term life portion of a split-dollar life insurance policy for Mr. Barzilay, \$197,086 represents the premium paid by the Company for the non-term portion of the split-dollar life insurance policy and \$8,592 represents the

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Company's contribution and matching payment under its 401(k) salary deferred plan. The Company expects to receive a refund of the premium for the non-term portion of the split-dollar life insurance policy upon the first to occur of certain events described in the policy.

- (7) Of this amount, \$2,328 represents the premium paid by the Company for the term life portion of a split-dollar life insurance policy for Mr. Rassman, \$141,617 represents the premium paid by the Company for the non-term portion of the split-dollar life insurance policy and \$8,592 represents the Company's contribution and matching payment under its 401(k) salary deferred plan. The Company expects to receive a refund of the premium for the non-term portion of the split-dollar life insurance policy upon the first to occur of certain events described in the policy.
- (8) Of this amount, \$44,800, \$36,500 and \$34,800 represents the estimated cost of income tax and financial statement preparation services provided during fiscal 2001, 2000 and 1999, respectively. The remaining amounts represent the estimated value of perquisites provided by the Company including health and life insurance, auto and gas allowances, auto insurance, club dues, telephone and internet service and other miscellaneous items.

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Option Grants in the Last Fiscal Year(1)

| Name | Number of Securities Underlying Options Granted(#) | % of Total Options Granted to Employees In Fiscal Year | Exercise Price (\$/sh) | Expiration Date | Potential Annual Price Appreciation 5% (\$) |
|--------------------|--|--|------------------------|-----------------|---|
| Robert I. Toll(2) | 250,000 | 21.75 | 38.625 | 12/20/10 | 6,072,764 |
| Zvi Barzilay(2) | 60,000 | 5.22 | 38.625 | 12/20/10 | 1,457,463 |
| Joel H. Rassman(2) | 15,000 | 1.31 | 38.625 | 12/20/10 | 364,366 |

- (1) No stock appreciation rights("SARs") were granted.
- (2) These options become exercisable starting on the first anniversary of the grant, with 25% becoming exercisable at that time and 25% becoming exercisable on each of the second, third and fourth anniversary dates.
- (3) These amounts represent assumed rates of appreciation and are not intended to forecast future appreciation in the price of the Company's common stock. Actual gains, if any, on stock option exercises are dependent on the future performance of our stock. There can be no assurance that the amounts reflected in these columns will be achieved or, if achieved, that they will exist at the time of any option exercise. The aggregate appreciation in value of all shares of our common stock outstanding on October 31, 2001 based on the assumed 5% and 10% rates of appreciation on the closing price of the common stock on October 31, 2001 that produced the realizable value of the options shown in this table (based upon the weighted average life of the grants) would be approximately \$681,502,000 at the assumed 5% rate of appreciation and \$1,727,061,000 at the assumed 10% rate of appreciation.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option

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Values (1)

The following table sets forth certain information with regard to the aggregated option exercises in the fiscal year ended October 31, 2001 and the option values as of the end of that year for the Chief Executive Officer and other executive officers of the Company.

| Name | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable (E) Unexercisable (U) | Value of Unexercised The-Money at Fiscal Year-End (\$) Exercisable Unexercisable |
|-----------------|---------------------------------------|------------------------|--|--|
| Robert I. Toll | 30,000 | 529,125 | 1,576,250 (E) 562,500 (U) | 17,915, 3,596, |
| Zvi Barzilay | 100,000 | 2,269,235 | 500,700 (E) 210,000 (U) | 6,171, 1,578, |
| Joel H. Rassman | 57,200 | 1,314,235 | 257,000 (E) 90,000 (U) | 3,191, 789, |

- (1) No SARs were exercised during the last fiscal year or held as of October 31, 2001.
- (2) Represents, with respect to each share, the closing price of \$31.16 per share of the Company's common stock as reported on the New York Stock Exchange on October 31, 2001 less the exercise price payable for the share.

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Compensation Committee Interlocks and Insider Participation

The Company's Executive Compensation Committee determines the compensation of the Company's executive officers. The only individuals who served as a member of the Executive Compensation Committee during the fiscal year ended October 31, 2001 are the current members of the committee. The current members of the Executive Compensation Committee are Carl B. Marbach and Paul E. Shapiro, neither of whom is an officer or employee, or former officer, of the Company or any subsidiary of the Company. The Executive Compensation Committee administers the Cash Bonus Plan, the Executive Officer Cash Bonus Plan and the Company's stock option plans and determines the salaries of the Chief Executive Officer, the Chief Operating Officer and Chief Financial Officer.

In order to help provide for an orderly market in the Company's common stock in the event of the death of either Robert I. Toll or Bruce E. Toll (the "Tolls"), or both of them, the Company and the Tolls have entered into agreements in which the Company has agreed to purchase from the estate of each of the Tolls \$10 million of the Company's common stock (or a lesser amount under certain circumstances), at a price equal to the greater of fair market value (as defined) or book value (as defined). Each of the Tolls has agreed to allow the Company to purchase \$10 million of life insurance on his life. In addition, each of the Tolls has granted to the Company, at no cost to it, an option to purchase

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up to an additional \$30 million (or a lesser amount under certain circumstances) of common stock from his estate. The agreements expire in October 2005.

In addition to the performance of their duties for the Company, the Tolls have engaged, and continue to engage, in certain other businesses in real estate. These businesses include the purchase, sale and management of townhome, apartment, condominium, commercial and industrial real estate projects for rental. The Company leases, at what it believes to be competitive market rates, certain office space from a business controlled by Robert I. Toll, Bruce E. Toll, Zvi Barzilay and Joel H. Rassman. During the last fiscal year, the Company paid to such business approximately \$57,000 in rent. The Company provided services to other businesses controlled by the Tolls during the fiscal year, which were billed at cost and paid throughout the year. The largest amount due the Company from these businesses at any time during the year was approximately \$12,000. No amounts were due the Company from these businesses at October 31, 2001. These transactions are reviewed and monitored by the Audit Committee. In addition to the foregoing, Mr. Robert I. Toll has agreed, with the approval of the Executive Compensation Committee, to reimburse the Company for one-half of the costs of an employee of the Company who provides Mr. Toll with investment advice.

In order to take advantage of commercial real estate opportunities which may present themselves from time to time, the Company formed Toll Brothers Realty Trust (the "Trust") in 1998. The Trust is effectively owned one-third by the Company, one-third by a number of senior executives and/or directors, including Robert I. Toll, Bruce E. Toll (and certain members of his family), Zvi Barzilay (and certain members of his family) and Joel H. Rassman, and one-third by the Pennsylvania State Employees Retirement System (collectively, the "Trustholders"). In June 2000, the Trustholders entered into an agreement pursuant to which the owner(s) of each one-third interest agreed to invest additional capital in an amount not to exceed \$9,259,000 if required by the Trust. As of January 31, 2002, no additional capital investment had been required pursuant to this commitment, which expires in June 2002. At October 31, 2001, the Company's investment in the Trust was \$7,471,000.

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The Company provides development, finance and management services to the Trust. During fiscal 2001, the Company earned \$1,672,000 in fees for these services. The Company also incurs certain costs on behalf of the Trust for which the Company is reimbursed by the Trust. These fees and reimbursements were paid to the Company throughout the year. The amount due the Company for fees and reimbursements as of October 31, 2001, was approximately \$200,000. The largest amount due the Company from the Trust at any time during the last fiscal year was approximately \$564,000.

Compensation of Directors

Each non-employee director receives \$4,000 for each full-day meeting attended, \$2,000 for each half-day meeting attended and \$1,500 for each telephonic meeting or committee meeting in which he participated. In addition, each non-employee director receives an annual grant of options for 15,000 shares of the Company's common stock under the 1993 Plan or the 1998 Plan. Each non-employee director who is a member of the Audit Committee and participates in at least one meeting during the year also receives an annual grant of options for 1,000 shares of common stock. Each non-employee director who is a member of an eligible committee (as determined by the Board of Directors from time to time), other than the Audit Committee, and participates in at least one meeting during the year receives an annual grant of options for 500 shares of common stock. No non-employee director may receive grants for service on more than three committees other than the Audit Committee in any fiscal year.

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On March 5, 1998, the Company and Mr. Bruce E. Toll entered into two agreements relating to Mr. Toll's withdrawal from day to day operations of the business (collectively the "Agreements"). The Agreements provided that (among other items) during the three-year term which commenced on November 1, 1998 and ended on October 31, 2001 (the "Consulting Term"), Mr. Toll would (a) make himself available to the Company on a reasonable basis to consult with the Company concerning matters within his knowledge and expertise, (b) not compete with the Company as described in the Agreements, and (c) agree to vote the shares of the Company's common stock owned by him as recommended by the Company's management or Board of Directors until the later of March 15, 2002 or until Mr. Toll no longer serves on the Board of Directors of the Company. The Company agreed to pay Mr. Toll the sum of \$500,000 during each year of the Consulting Term as well as provide group health insurance of a type and amount consistent with insurance provided to Company executives for himself, and his beneficiaries who were covered on March 5, 1998, without charge, and for all other children provided that the premium costs that the Company is permitted to charge under COBRA for such coverage are paid by Mr. Toll for those children. The Company paid \$7,078 in fiscal 2001 for Mr. Toll's health insurance. In June 2000, the Company and Mr. Toll amended the Agreements to terminate Mr. Toll's obligation to vote the shares of the Company's common stock owned by him referred to above and to extend the Consulting Term until October 31, 2004.

In addition, during fiscal 2001, the Company provided Bruce E. Toll additional benefits of approximately \$63,800 for income tax preparation services, club dues, contributions to the Company's 401(k) plan and other miscellaneous items.

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In December 2000, the Board of Directors approved the purchase of a split-dollar life insurance policy for the benefit of Bruce E. Toll. The Company paid \$6,343 in premiums for the term life portion of a split-dollar life insurance policy for Mr. Toll, and paid \$284,214 in premiums for the non-term portion of the split dollar life insurance policy for which the Company expects to receive a refund upon the first to occur of certain events described in the policy.

Item 14: Exhibits

| Exhibit Number | Description |
|----------------|--|
| 99.1 | Certification of Robert I. Toll pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.2 | Certification of Joel H. Rassman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized in the Township of Lower Moreland, Commonwealth of Pennsylvania, on September 6, 2002.

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Toll Brothers, Inc.
(Registrant)

By: /s/ Joel H. Rassman

Joel H. Rassman
Executive Vice President, Treasurer
and Chief Financial Officer

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CERTIFICATION

I, Robert I. Toll, Chief Executive Officer of Toll Brothers, Inc., certify that:

1. I have reviewed this annual report on Form 10-K/A of Toll Brothers, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 6, 2002

By: /s/ Robert I. Toll

Robert I. Toll
Chief Executive Officer

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CERTIFICATION

I, Joel H. Rassman, Chief Financial Officer of Toll Brothers, Inc., certify that:

1. I have reviewed this annual report on Form 10-K/A of Toll Brothers, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

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Date: September 6, 2002

By: /s/ Joel H. Rassman

Joel H. Rassman
Chief Financial Officer

Exhibit Index

| Exhibit Number ----- | Description |
|-------------------------|--|
| 99.1* | Certification of Robert I. Toll pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
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* Filed electronically herewith